



1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 Arizona Corporation Commission

3 **COMMISSIONERS**

**DOCKETED**

4 JEFF HATCH-MILLER, Chairman  
5 WILLIAM A. MUNDELL  
6 MARC SPITZER  
7 MIKE GLEASON  
8 KRISTIN K. MAYES

SEP 30 2005

DOCKETED BY

CAR

9 IN THE MATTER OF UNS GAS, INC. FOR  
10 APPROVAL OF THE SALE OF CERTAIN  
11 ASSETS.

DOCKET NO. G-04204A-05-0002

DECISION NO. 68180

**ORDER**

12 Open Meeting  
13 September 7 and 8, 2005  
14 Phoenix, Arizona

15 **BY THE COMMISSION:**

16 \* \* \* \* \*

17 Having considered the entire record herein and being fully advised in the premises, the  
18 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

19 **FINDINGS OF FACT**

20 1. On January 3, 2005, UNS Gas, Inc. ("UNSG") filed an application for authorization  
21 pursuant to A.R.S. § 40-285(A) to sell an Operating Headquarters consisting of a metal building,  
22 storage shed, fence yard and associated property ("Prescott Building") at 501 North Sixth Street,  
23 Prescott in Yavapai County, Arizona.<sup>1</sup>

24 2. UNSG is a public service corporation authorized to provide gas service in the State of  
25 Arizona. UNSG is a subsidiary of Unisource Energy Services of Tucson which also owns Tucson  
26 Electric Power.

27 3. The Prescott Building will be sold to the City of Prescott, Arizona for \$495,000 in an  
28 all-cash transaction. The City of Prescott intends to convert the Prescott Building into a fire station.

4. UNSG will lease back the facility for one year to allow time for construction of a new  
local headquarters and facilities in Prescott Valley, Arizona.<sup>2</sup> UNSG will use the funds from the sale

<sup>1</sup> The legal description is attached as Exhibit A.

<sup>2</sup> According to the Staff Report, the lease rate of \$2,000 per month is lower than what the market would bear.

1 of the Prescott property to construct a new building that will provide enough space to house its  
2 operations, service, and engineering personnel.

3 5. According to the application, the building and property are no longer of adequate size  
4 to support ongoing gas service and administrative operations in the Prescott area.

5 6. The application states that the new location, east of the airport, will allow for much  
6 safer and more efficient access to the outlying service areas managed from the office, including  
7 Prescott, Prescott Valley, Chino, Paulden, Dewey, Humbolt, Mayer, and Black Canyon City. The  
8 new facility will cost substantially more to construct and furnish than the proceeds UNSG will  
9 receive from the sale of the building and property.

10 7. On March 22, 2005, the Commission's Utilities Division Staff ("Staff") filed its Staff  
11 Report in this matter.

12 8. According to the Staff Report, the most recent appraisal valued the Prescott Building  
13 at \$500,000 as of September 4, 2004. The depreciated book value is \$279,271, and the sale will  
14 result in a gain of approximately \$220,629.

15 9. Staff recommended that authorization be granted for UNSG to sell the Prescott  
16 Property to the City of Prescott for \$495,000 on the terms and conditions described in the application.

17 10. Staff additionally recommended that the \$220,629 gain on the sale be deferred until  
18 UNSG's next rate case, where 100 percent of the gain shall be deducted from the cost of the new  
19 building, thereby reducing the amount of rate base.

20 11. Staff also recommended that UNSG be ordered to file copies of all executed sales  
21 documentation and settlement calculations within 90 days of sale closing with the Compliance  
22 Manager of the Utilities Division.

23 12. On April 8, 2005, UNSG filed a Notice of Intent to File Response to Staff Report that  
24 requested that a Recommended Order not be issued until after UNSG had an opportunity to respond.

25 13. On April 26, 2005, UNSG filed its Response to Staff Report. UNSG objected to  
26 Staff's recommendation that 100 percent of the gain be deducted from the cost of the new building.  
27 UNSG believes that such action would result in "1. Confiscation of UNSG's property; 2. An  
28 arbitrary pre-determination of the prudence of UNSG's investment in the new building; and 3. A

1 policy that would discourage utilities from selling assets that are no longer useful.”

2 14. On May 6, 2005, Staff filed a Reply to UNSG’ Response to Staff Report. Staff stated  
3 that while customers do not have an ownership interest in the Prescott Property, they have  
4 contributed to its acquisition and are entitled to fair treatment upon any disposition of the asset. Staff  
5 believes that its treatment is lawful and not confiscatory, but Staff stated that it continued to be  
6 willing to consider an alternative treatment if the facts were to justify an alternative treatment.

7 15. On May 23, 2005, UNSG submitted a letter to the Commission’s Chief Counsel  
8 presenting reasons to support an equal sharing of the gain between shareholders and ratepayers.<sup>3</sup> The  
9 letter indicated that the sale would benefit the citizens of the City of Prescott in the following ways:

10 1) The City of Prescott would prefer to relocate UNSG’s operations (including utility vehicles and  
11 equipment storage facilities) away from its location in the center of the downtown business district;  
12 2) The City of Prescott intends to convert the facilities into a fire station, which, by its location,  
13 would enhance response times in Prescott; 3) UNSG entered into a sale agreement with terms that are  
14 favorable to the City of Prescott, including a purchase price below the appraised market value; and 4)  
15 UNSG intends to build a new larger building that would have economic and intangible benefits to the  
16 citizens of Prescott.

17 16. On July 13, 2005, Staff filed an Amendment to its Staff Report. Upon review of the  
18 additional information submitted by UNSG and further consideration by Staff, Staff revised its  
19 recommendation to support UNSG’s proposal to equally share the gain on the sale of the assets  
20 between ratepayers and shareholders. Staff recommended deferring the rate-making treatment of the  
21 ratepayers’ portion of the gain until UNSG’s next rate case.

22 17. Staff’s recommendations set forth in Findings of Fact. Nos. 9 and 11 are reasonable  
23 and should be adopted.

24 18. Although Staff and the Company have agreed that the gain from the sale should be  
25 shared equally by shareholders and ratepayers, we are not adopting any recommendation concerning  
26 rate-making treatment in this proceeding. In this application, UNSG has only sought approval of the  
27

28 <sup>3</sup> The letter was docketed on July 28, 2005.

1 sale of assets pursuant to A.R.S. §40-285 and no public notice of such an application is required.  
2 However, during the course of this proceeding, recommendations were made concerning the  
3 appropriate rate treatment for the gain on the sale. Interested persons have not had notice that the  
4 Commission may be deciding a matter that will be included in UNSG's next rate case, and they have  
5 not had an opportunity to provide input into that determination. Accordingly, while Staff and UNSG  
6 may have reached an agreement as to how they will propose the gain be handled in UNSG's next rate  
7 case and they are entitled to present that recommendation at that time, we are not adopting any  
8 recommendation now in this sale of asset application. However, UNSG is put on notice that when it  
9 files its next rate application, the Commission does intend to address the issue of the appropriate  
10 treatment of the gain.

#### 11 CONCLUSIONS OF LAW

12 1. UNSG is a public service corporation within the meaning of Article XV of the  
13 Arizona Constitution and A.R.S. § 40-285.

14 2. The Commission has jurisdiction over UNSG and the subject matter of the application.

15 3. The Prescott Building is, and has been necessary and useful to the performance of  
16 UNSG's duties as a public service corporation.

17 4. After the completion of the new operating headquarters and transfer of the employees,  
18 vehicles, and equipment, the Prescott Building will no longer be necessary and useful to the  
19 performance of UNSG's duties as a public service corporation

20 5. The sale of the Prescott Building for the terms and purposes set forth in the application  
21 is reasonable and in the public interest.

#### 22 ORDER

23 IT IS THEREFORE ORDERED that the application of UNS Gas, Inc. to sell its Prescott  
24 Building, as described in Exhibit A, to the City of Prescott, is approved.

25 IT IS FURTHER ORDERED that the issue of the appropriate rate-making treatment of the  
26 gain on the sale of the Prescott Building will be determined in UNS Gas Inc.'s next rate case.

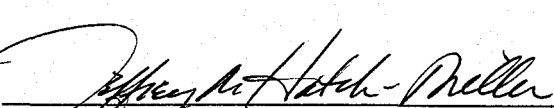
27 IT IS FURTHER ORDERED that UNS Gas, Inc. and Staff may submit their agreed upon  
28 rate-making treatment of the gain on the sale of the Prescott Building in UNS Gas Inc.'s next rate

case.

IT IS FURTHER ORDERED that UNS Gas, Inc. shall file copies of all executed sales documentation and settlement calculations within 90 days of sale closing with the Commission's Docket Control and with the Compliance Manager of the Utilities Division.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

  
CHAIRMAN

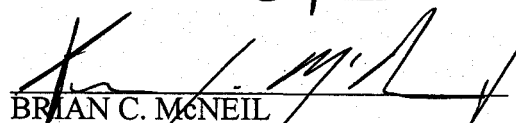
  
COMMISSIONER

  
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COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 30<sup>th</sup> day of Sept., 2005.

  
BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

SERVICE LIST FOR:

UNS GAS, INC.

DOCKET NO.:

G-04204A-05-0002

Erik Bakken  
Corporate Counsel  
UniSource Energy Services  
One South Church Avenue  
Tucson, AZ 85701

Raymond Heyman  
ROSHKA HEYMAN & DEWULF  
400 E. Van Buren, Ste. 800  
Phoenix, Arizona 85004

Christopher Kempley, Chief Counsel  
Legal Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, AZ 85007

Ernest G. Johnson, Director  
Utilities Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, AZ 85007

EXHIBIT A

## EXHIBIT A-1

All that portion of the Northeast quarter of the Southeast quarter of Section 33, Township 14 North, Range 2 West, Gila and Salt River Base and Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the East quarter corner of Section 33, above Township and Range; thence South 95.3 feet to a point on the section line; thence North 88 degrees, 36 minutes, West, 9.24 feet to an iron stake marking the Northeast corner of the tract, which is the actual POINT OF BEGINNING; thence South 00 degrees, 09 minutes, East, 125 feet to a nail in a tie; thence North 88 degrees, 36 minutes, West, 214.5 feet to an iron pin, 1141 feet Northerly from the center line of Sheldon Street in the City of Prescott; thence North 01 degrees, 20 minutes, East, 125 feet to an iron pin; thence South 88 degrees, 36 minutes, East, 211.2 feet to the Northeast corner, the PLACE OF BEGINNING.

AND all that portion of the Northeast quarter of the Southeast quarter of Section 33, Township 14 North, Range 2 West, Gila and Salt River Base and Meridian, Yavapai County, Arizona, described as follows:

COMMENCING at the intersection of the Easterly line of said Section 33 with the centerline of the main branch line of said Railway Company, thence South 47 degrees, 37 minutes, 25 seconds, West (bearing assumed for purposes of this description) along said centerline 124.34 feet; thence North 27 degrees, 31 minutes, 00 seconds, West, 67.40 feet; thence North 15 degrees, 28 minutes, 15 seconds, West, 290.00 feet; thence Northerly along the arc of a curve that is tangent to the preceding course, concave Easterly and having a radius of 2281.83 feet, through a central angle of 3 degrees, 50 minutes, 13 seconds, a distance of 151.47 feet to a point in the Westerly prolongation of the Southerly line of that certain parcel of land as described in Deed to Southern Union Gas Company recorded in Book 197, Pages 317 and 318, Records of said County, last said point being the TRUE POINT OF BEGINNING for the parcel herein described; thence continuing Northerly along said curve having a radius of 2261.83 feet, through a central angle of 3 degrees, 13 minutes, 39 seconds, a distance of 127.41 feet to a point in the Westerly prolongation of the Northerly line of said Gas Company's parcel of land; thence South 88 degrees, 48 minutes, 00 seconds, East along last said prolongation 35.73 feet to a point in the Westerly line of said Gas Company's parcel of land; thence South 01 degrees, 08 minutes, 00 seconds, West along said Westerly line 125.00 feet to a point in first said Westerly prolongation; thence North 88 degrees, 48 minutes, 00 seconds, West along first said prolongation 11.09 feet to the TRUE POINT OF BEGINNING.

## EXHIBIT A-2

A portion of Lot 13, Lot J, Lot N, and Lot O of the 6<sup>th</sup> Street Subdivision as recorded in Book 28 of Maps, pages 62-63, records of Yavapai County Recorder and that portion of Section 33, Township 14 North, Range 2 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, described as follows:

COMMENCING at the West quarter corner of Section 34, township 14 North, Range 2 West, which was found a 2 ½ inch General Land Office Brass Cap at said corner, and which said corner bears South 00 degrees, 11 minutes, 53 seconds East, a distance of 1827.48 feet from the closing corner of said Sections 33 and 34, Township 14 North, Range 2 West, which was found a 2 ½ inch General Land Office Brass Cap at said closing corner;

thence North 00 degrees, 11 minutes, 53 seconds West, a distance of 28.45 feet to the TRUE POINT OF BEGINNING;

thence South 89 degrees, 56 minutes, 07 seconds East, a distance of 53.55 feet;

thence North 00 degrees, 14 minutes, 36 seconds East, a distance of 12.00 feet;

thence South 89 degrees, 56 minutes, 07 seconds East, a distance of 182.97 feet to a point on the Northwestern right-of-way line of EZ Street as dedicated on the plat of the 6<sup>th</sup> Street Subdivision as recorded in Book 28 of Maps, pages 62-63, records of the Yavapai County Recorder;

thence Southwesterly along the Northwestern right-of-way line of EZ Street, along a non-tangent curve to the right with a radius of 195.00 feet, an arc length of 96.85 feet, a central angle of 28 degrees, 27 minutes, 25 seconds, and a chord bearing of South 36 degrees, 23 minutes, 58 seconds West with a chord distance of 95.86 feet;

thence South 50 degrees, 37 minutes, 41 seconds West, a distance of 47.14 feet along the Northwestern right-of-way line of EZ Street;

thence Southwesterly along the Northwestern right-of-way line of EZ Street, along a tangent curve to the left with a radius of 300.00 feet, an arc length of 40.64 feet, a central angle of 07 degrees, 45 minutes, 41 seconds, and a chord bearing South 46 degrees, 44 minutes, 51 seconds West with a chord distance of 40.61 feet;

thence South 89 degrees, 41 minutes, 56 seconds West, a distance of 113.26 feet to a point on the Section line between Sections 33 and 34;

thence South 89 degrees, 41 minutes, 56 seconds West, a distance of 36.49 feet;

thence North 00 degrees, 11 minutes, 53 seconds West, a distance of 123.98 feet;

thence South 89 degrees, 56 minutes, 07 seconds East, a distance of 36.50 feet to the TRUE POINT OF BEGINNING.

EXCEPT all oil, gas and other minerals as reserved in instrument recorded in Book 986 of Official Records, pages 281-286 and in Book 2101 of Official Records, page 116.

TOGETHER with that certain easement as created in Book 2394 of Official Records, pages 750-756, inclusive.